



FEDERAL  
RESERVE  
BANK  
*of* ATLANTA

# Tennessee State Funding Board

---

November 13, 2015

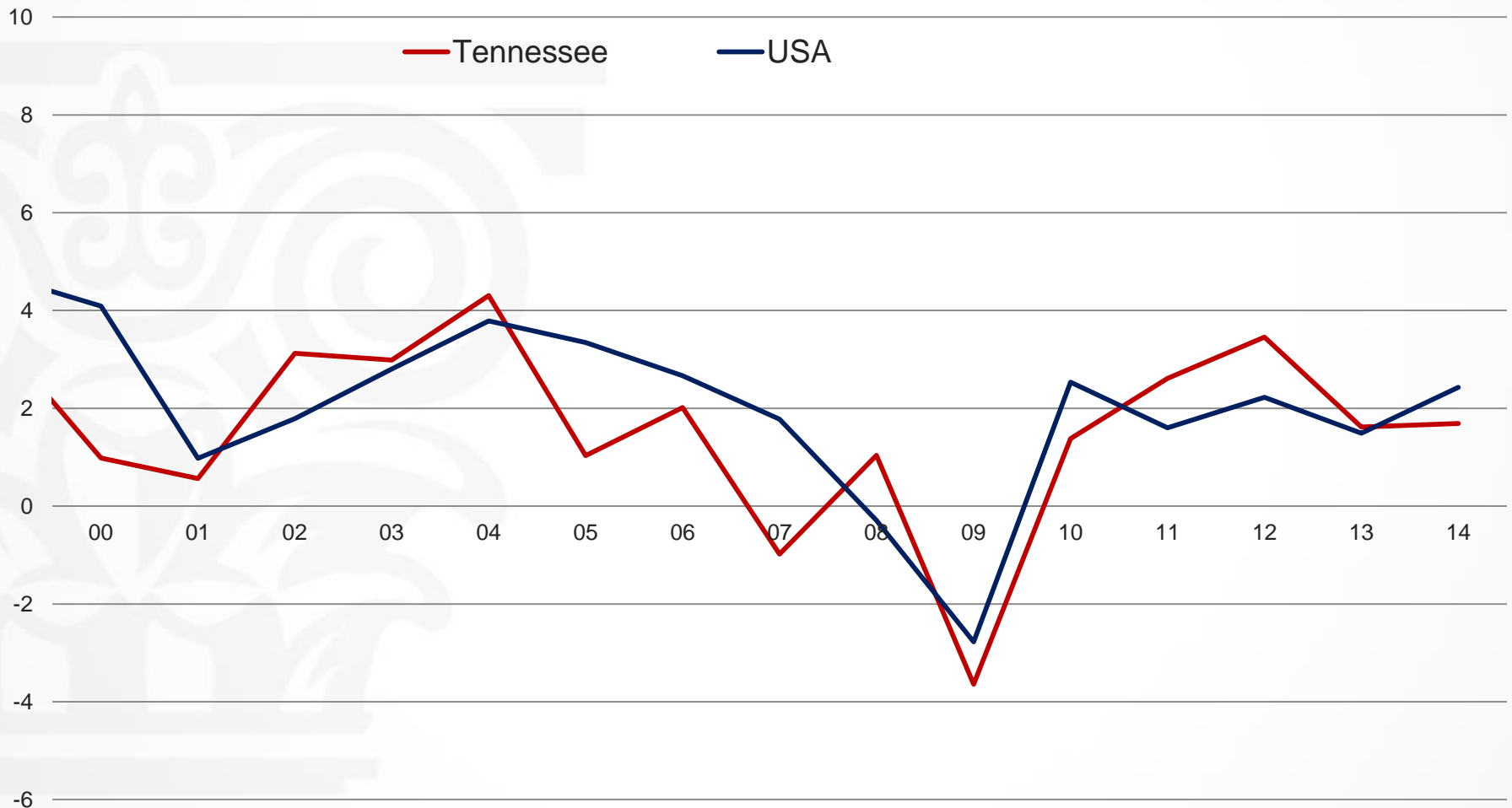
Lee Jones

Regional Executive - Tennessee

The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.

# Tennessee's economic performance continues to closely mirror that of the United States

**Economic Growth in Tennessee and the U.S., 2000-2014**  
year-over-year % change



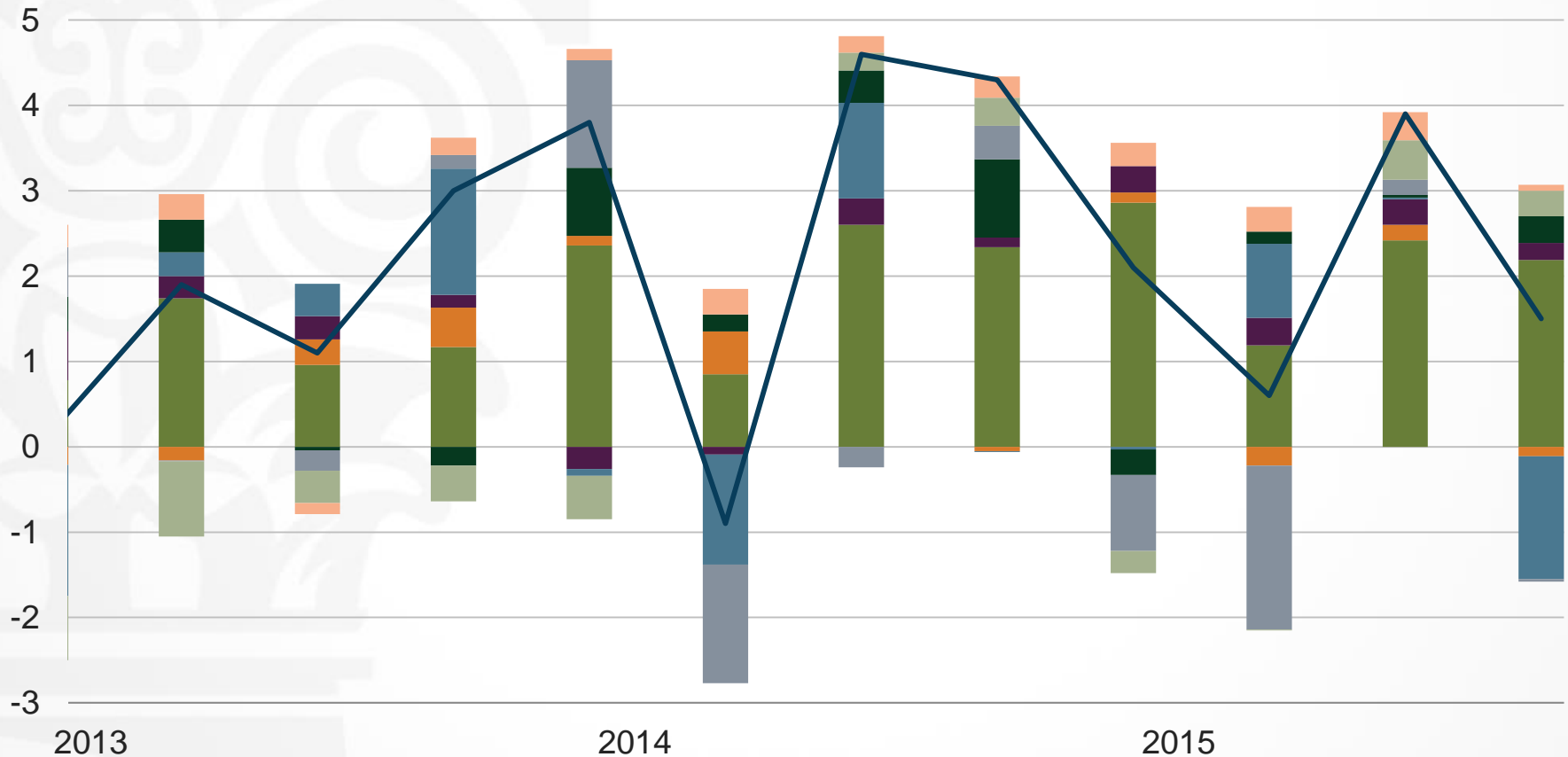
Source: Bureau of Economic Analysis

# And consumer spending (light green) continues to drive real GDP growth

Contributions to Real GDP Growth  
quarterly, percent, seasonally adjusted annualized rate

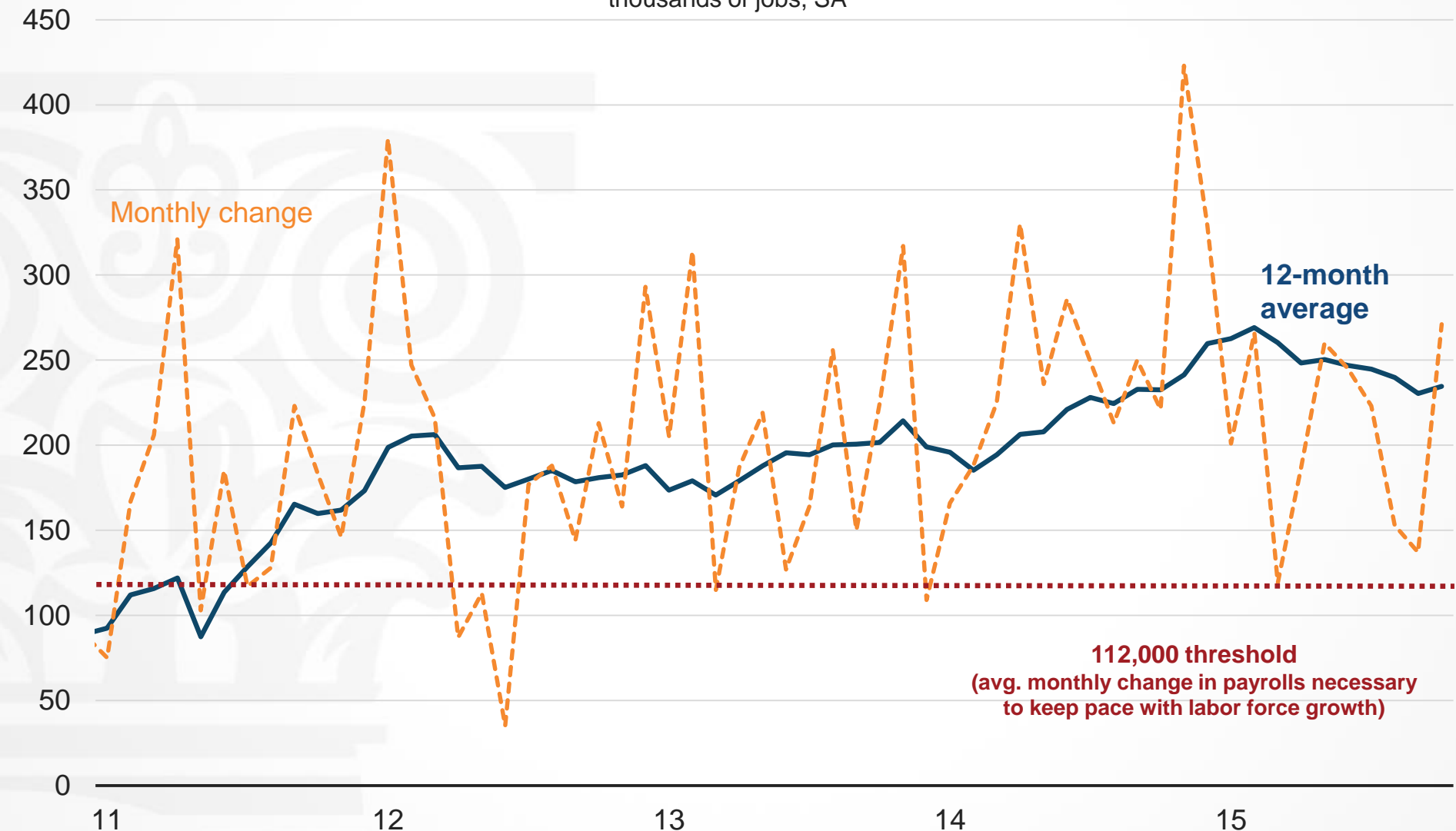
- Intellectual Property Products
- Net Exports
- Private Inventory Investment
- Nonresidential Structures
- Real GDP

- Government
- Nonresidential Equipment & Software
- Residential Investment
- Consumer Spending



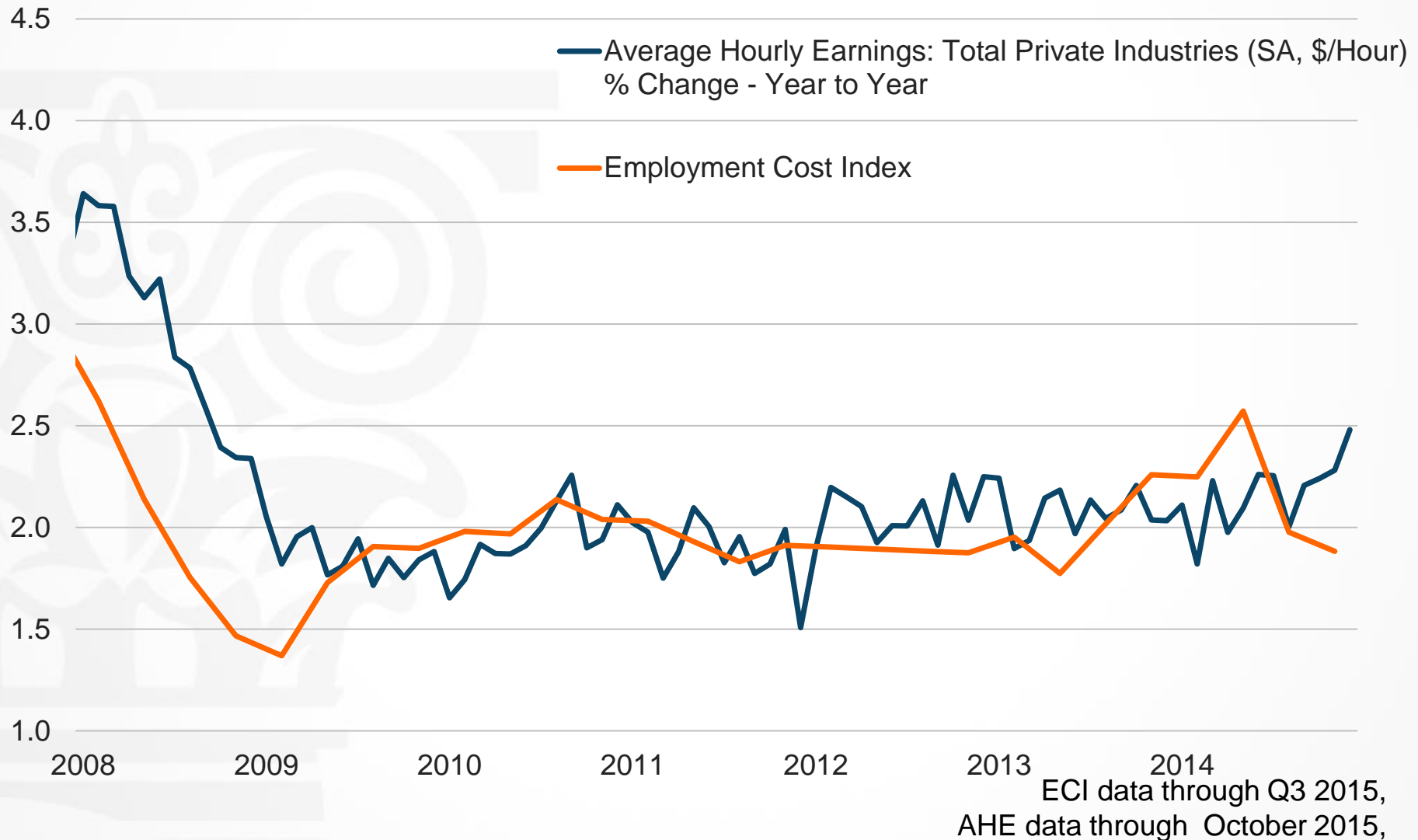
# The economy added a net 271,000 new jobs in October, well above the threshold of 112,000 needed to continue to make progress in the labor market

**Payroll Employment Changes**  
thousands of jobs, SA



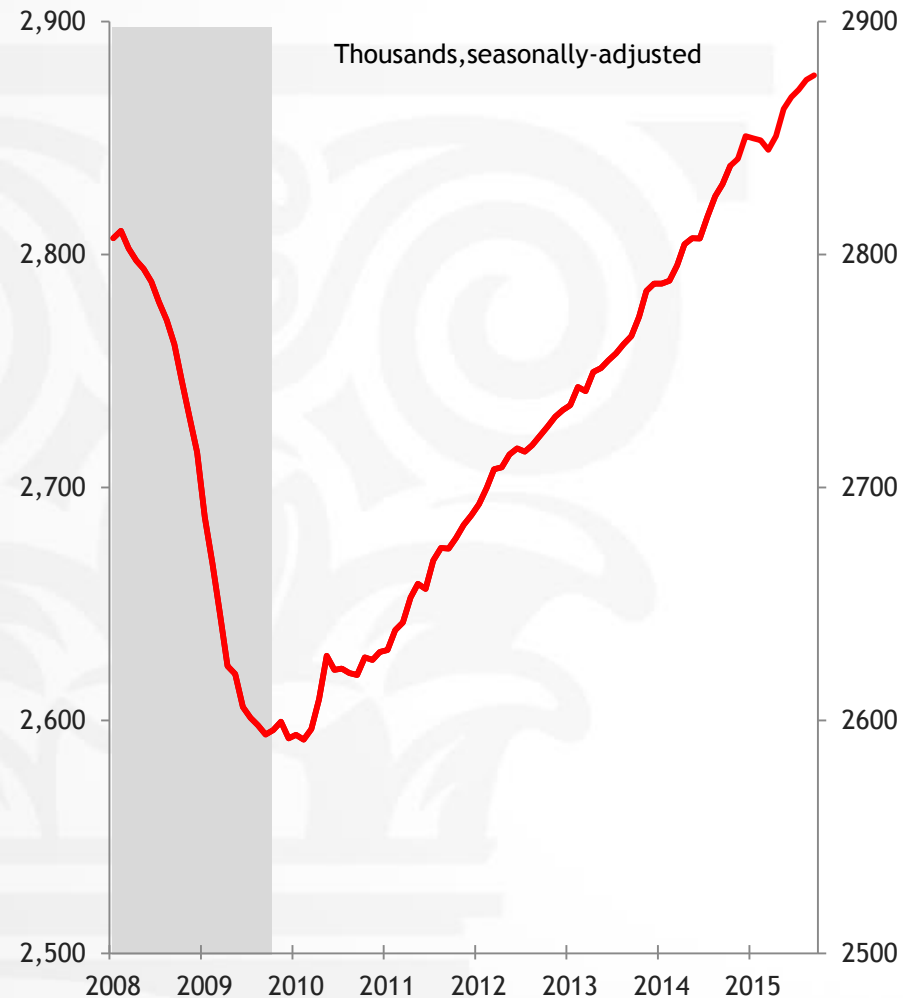
# The most recent reading on average hourly earnings suggests that wage growth—which has been stuck around 2% throughout the recovery—may be starting to pick up

year-over-year change, SA

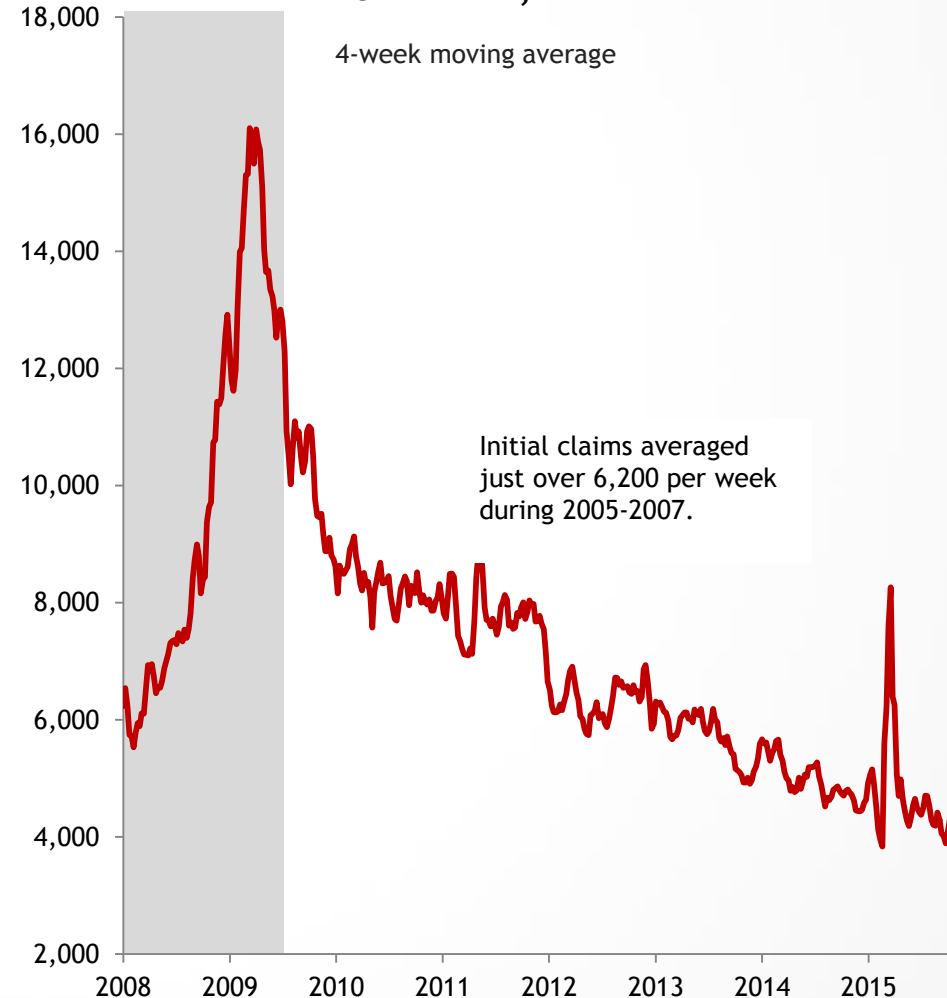


# In Tennessee, both payroll employment and initial unemployment insurance claims have slowly returned to pre-recession levels and continue to show signs of improvement

## Tennessee Payroll Employment September 2015

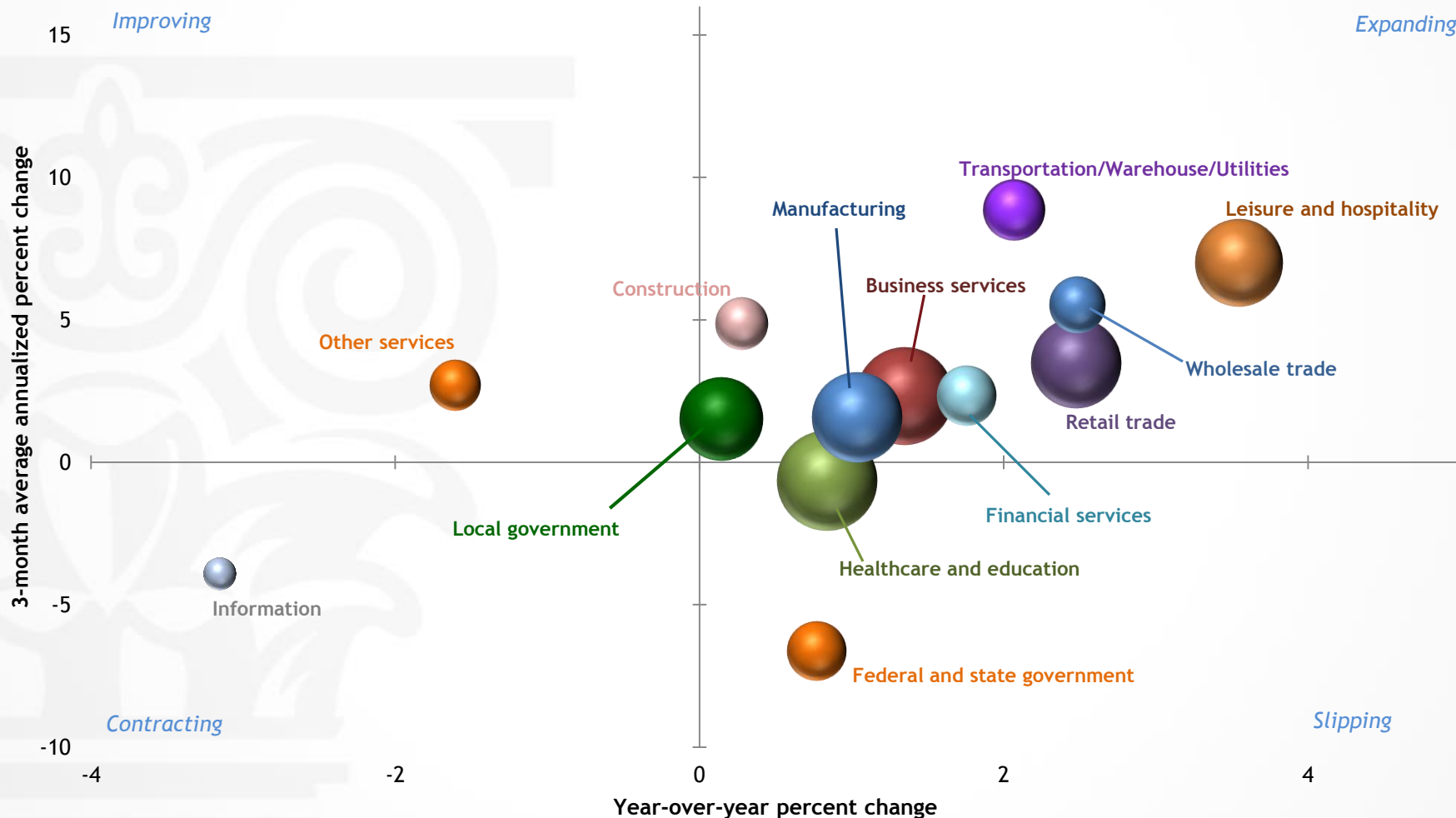


## Initial Unemployment Insurance Claims: Tennessee October 31, 2015



# Employment growth momentum in Tennessee has been positive, with employment in most industry sectors expanding over both the past 3 and 12 months

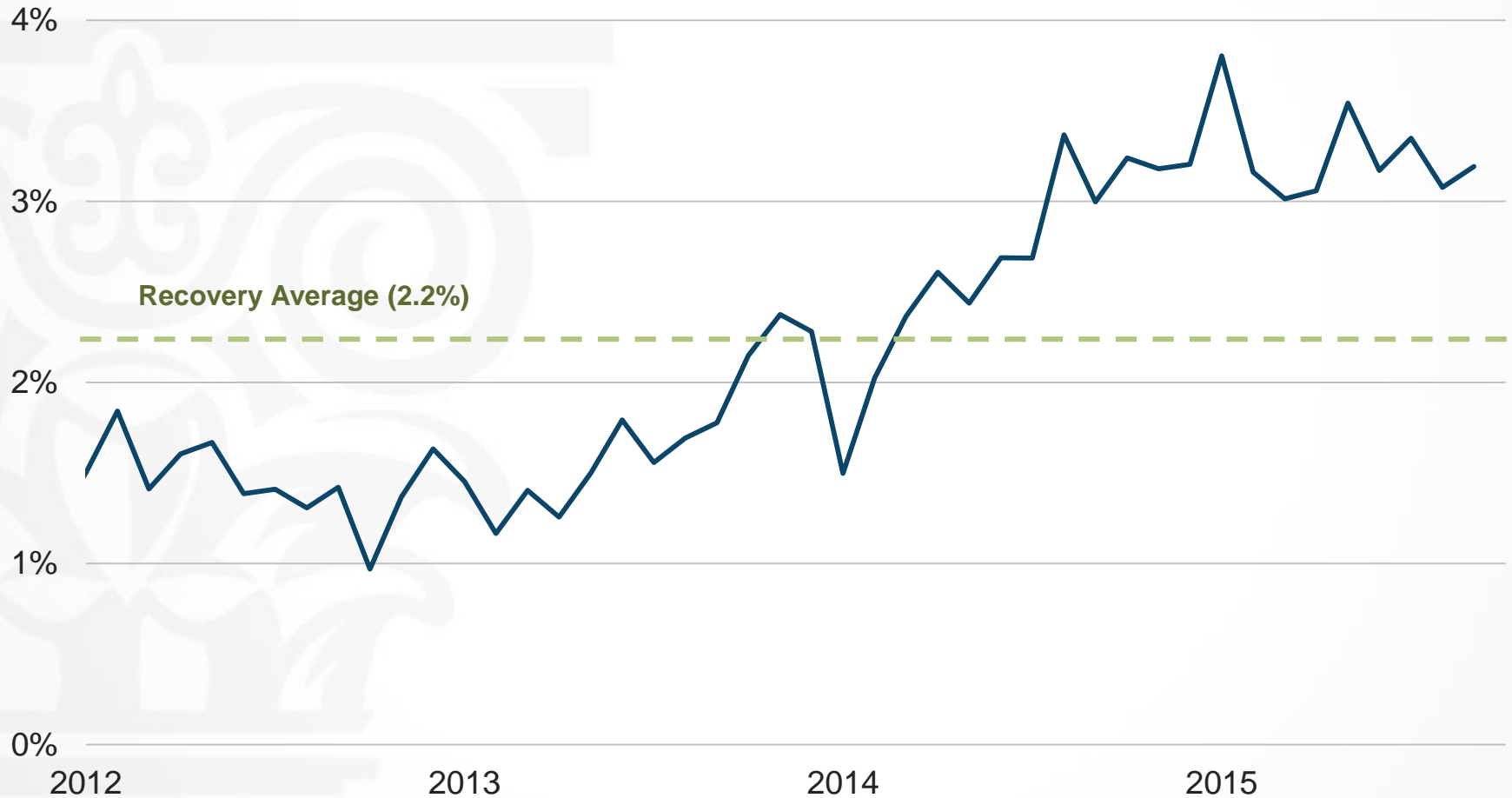
Employment Momentum by Industry: Tennessee  
September 2015



# Consumer spending growth picked up throughout 2014 and has remained relatively stable in 2015, supported by strengthening household balance sheets

## Real Personal Consumption Expenditures

year-over-year percent change, seasonally adjusted

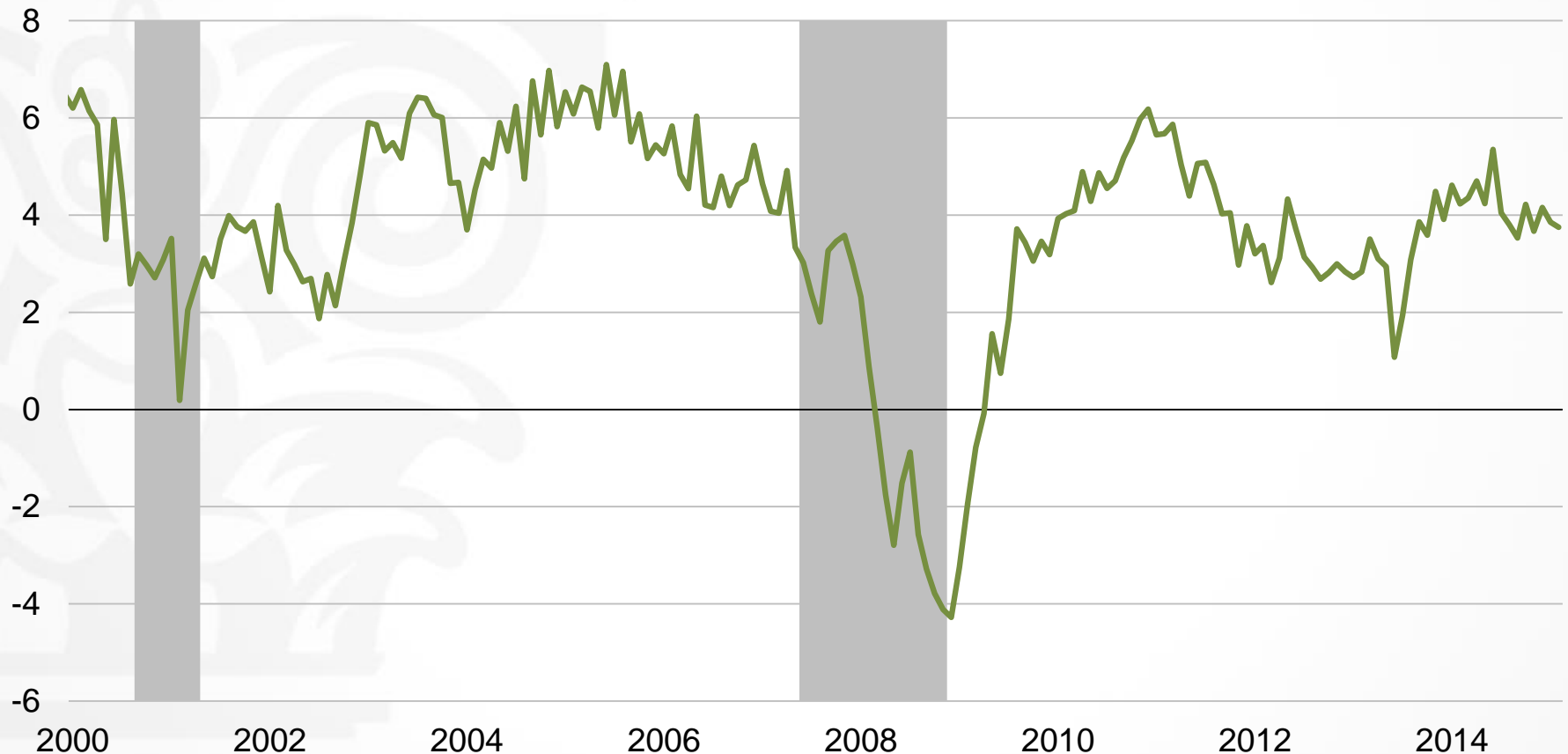




# Similarly, core retail sales growth has remained relatively stable (though somewhat muted from a historical perspective) at around 4% over the past 12 months

year-over-year percent change, seasonally adjusted

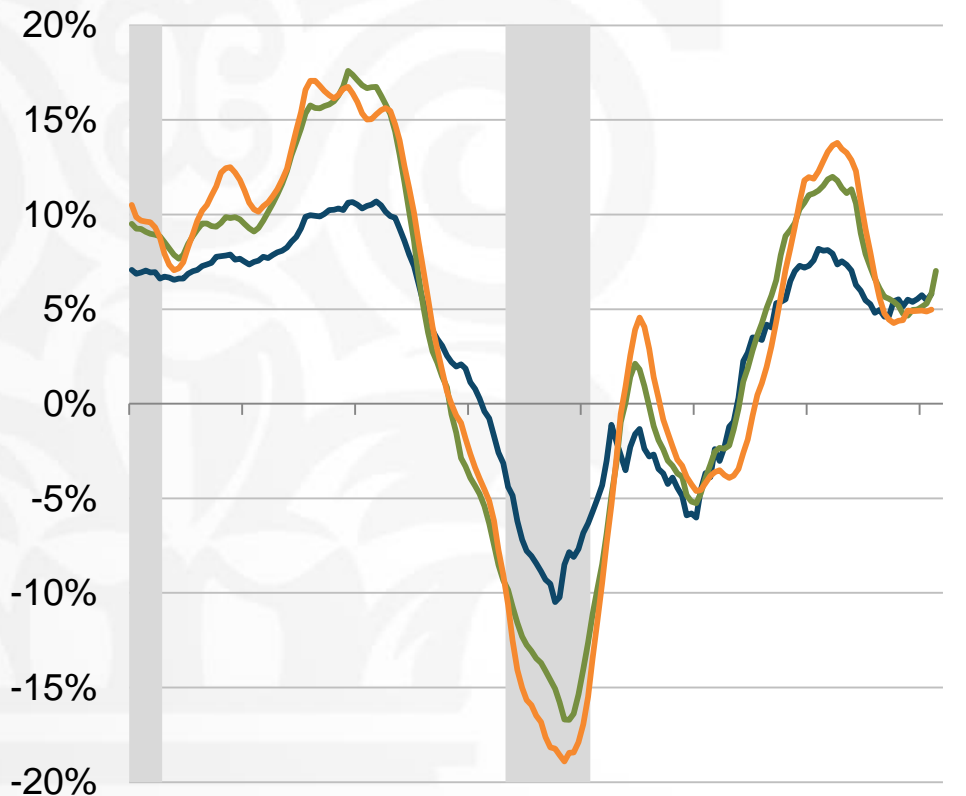
— Core Retail Sales (ex auto, gas & bldg materials): September 2015=3.7



# The housing market continues to expand, with prices besting inflation and sales growth topping GDP growth by significant margins

## U.S. House Prices

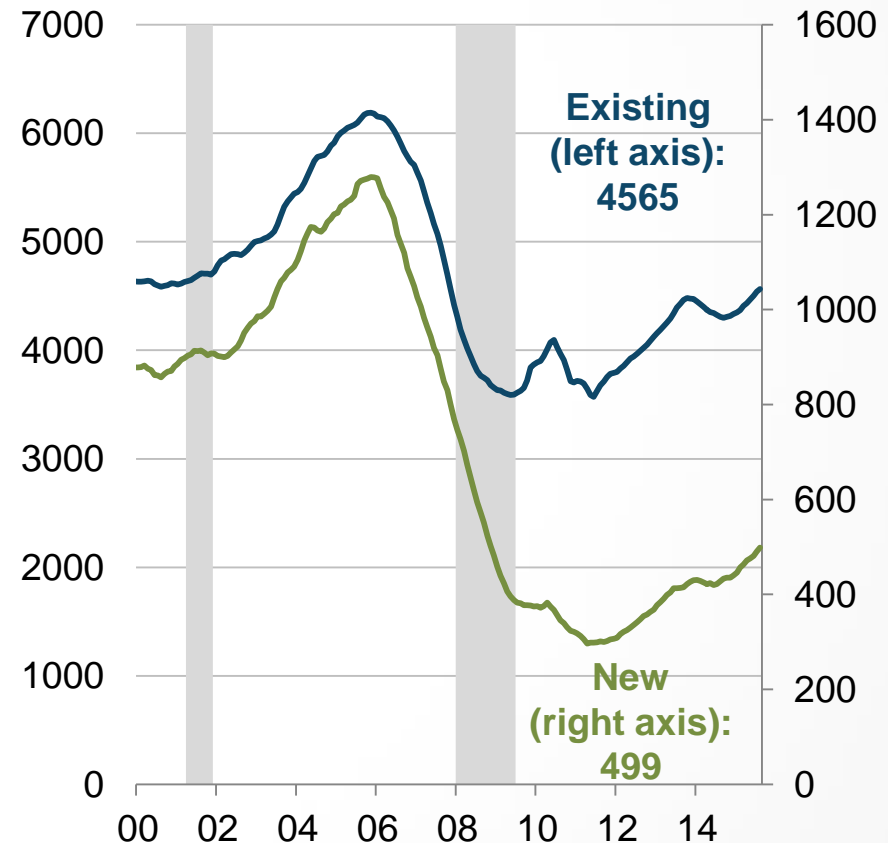
monthly index, year-over-year percent change



2001 2003 2005 2007 2009 2011 2013 2015  
FHFA and S&P/Case-Shiller through August, CoreLogic through September 2015

## U.S. Single-Family Home Sales

12-month moving average, thousands, SAAR

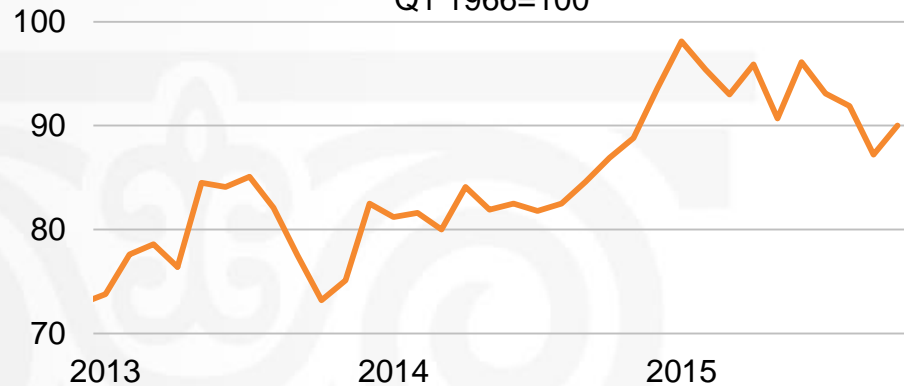


through August 2015

# The fundamentals for consumer spending appear favorable

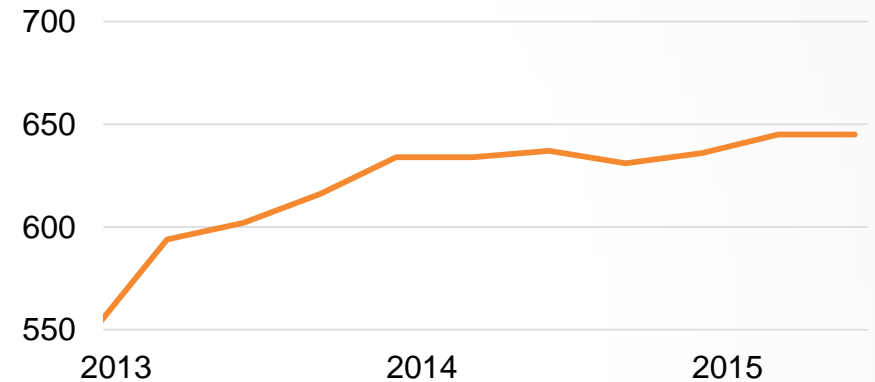
**University of Michigan Consumer Sentiment Index**

Q1 1966=100



Source: University of Michigan Survey of Consumers through October 2015

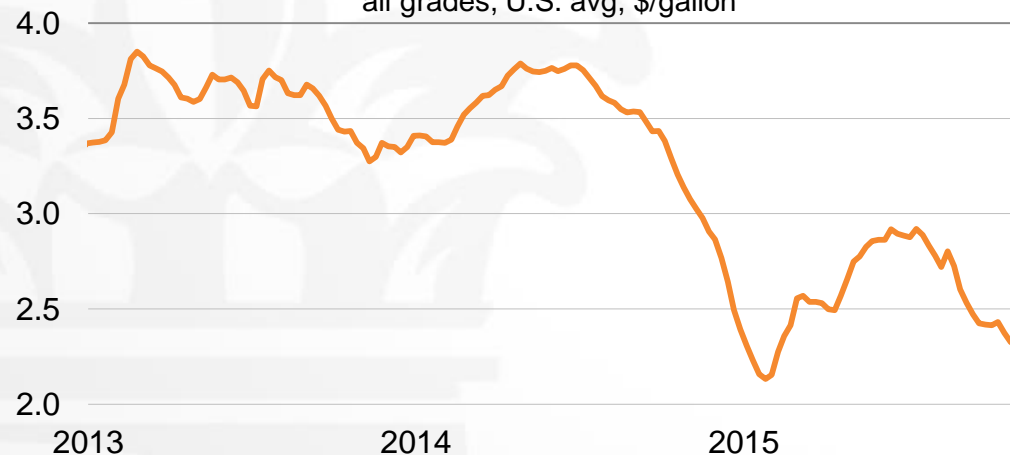
**Household Wealth as a Percent of Disposable Personal Income**



Source: Federal Reserve Board through Q2 2015

**Retail Gasoline Price**

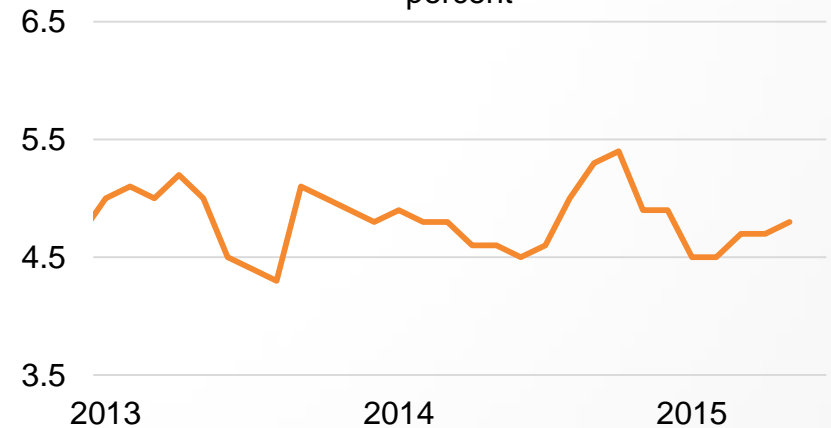
all grades, U.S. avg, \$/gallon



Source: Energy Information Administration through November 2, 2015

**Personal Savings Rate**

percent

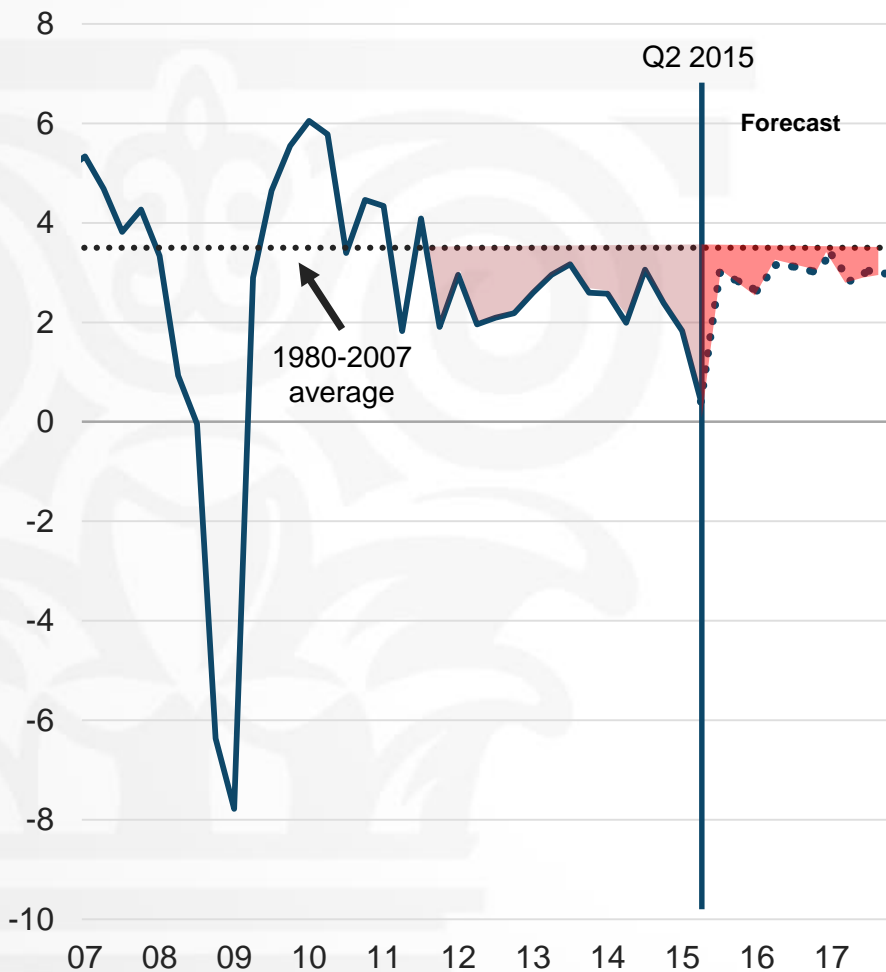


Source: Bureau of Economic Analysis through September 2015

Foreign growth has slowed thus far in 2015. Forecasts generally predict that foreign GDP will accelerate but remain below trend over the medium term. Combined with the appreciation of the dollar over the past year, this does not bode well for US exports.

### Broad Real Foreign Gross Domestic Product Index (2005=100)

percent change, annualized



Source: Macroeconomic Advisers

### Broad Trade-Weighted Exchange Value of the U.S. Dollar

nominal, monthly, January 1997=100



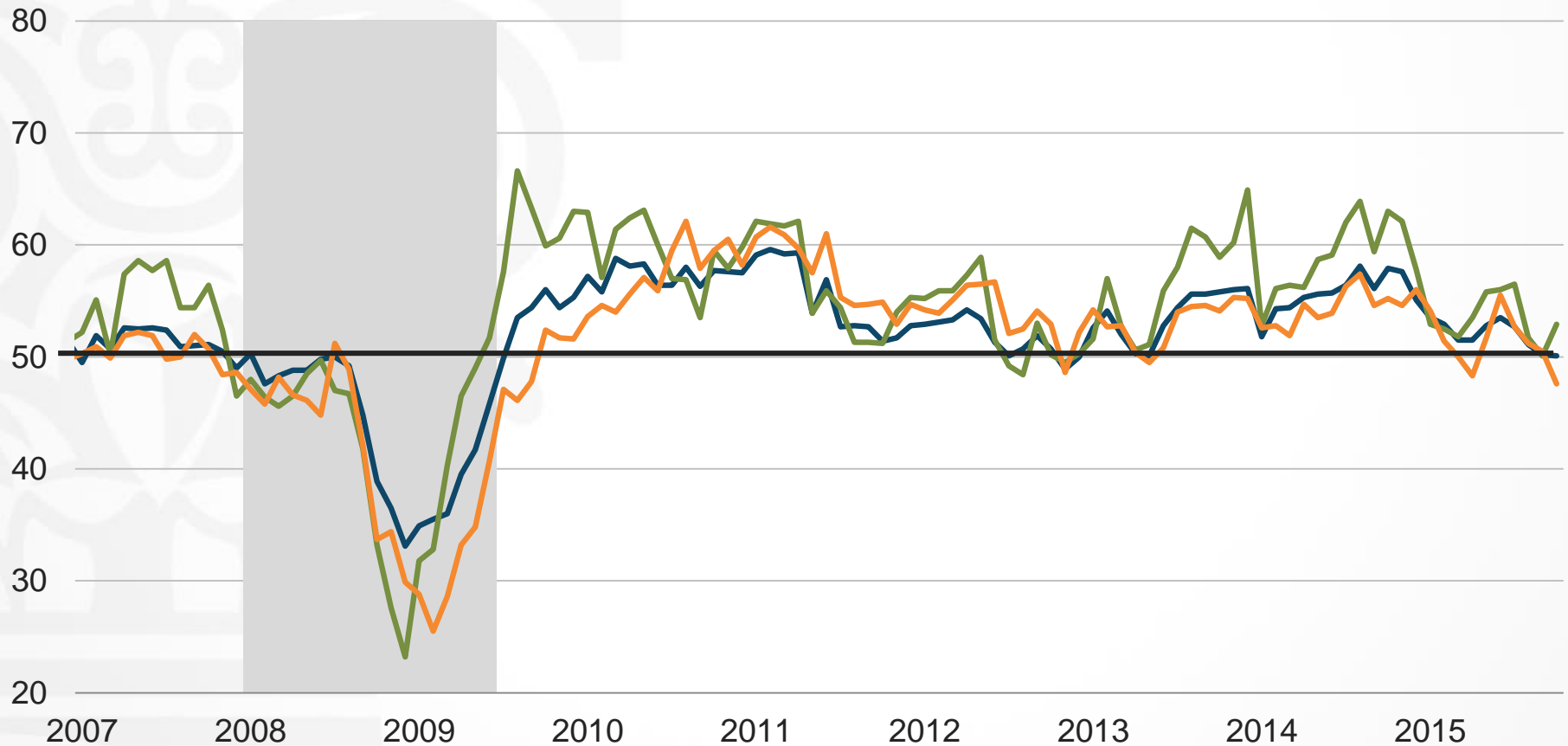
Source: Federal Reserve Board

through October 2015

# Measures of US manufacturing activity appear to indicate some slowing and only moderate expansion, at best.

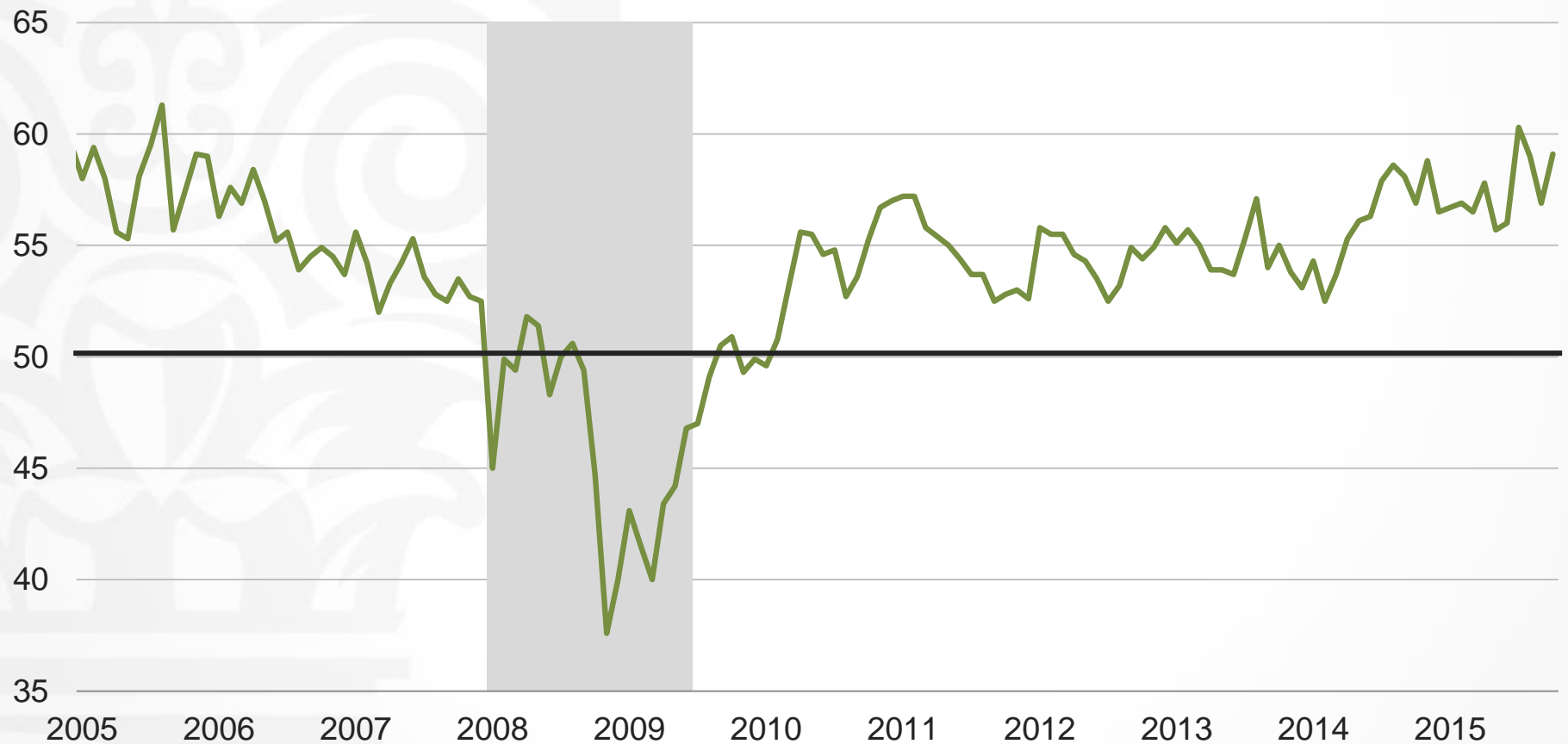
seasonally adjusted, index, 50 or greater  
indicates expansion, less than 50  
indicates contraction

— PMI Composite Index: October 2015= 50.1  
— New Orders Index: October 2015= 52.9  
— Employment Index: October 2015= 47.6



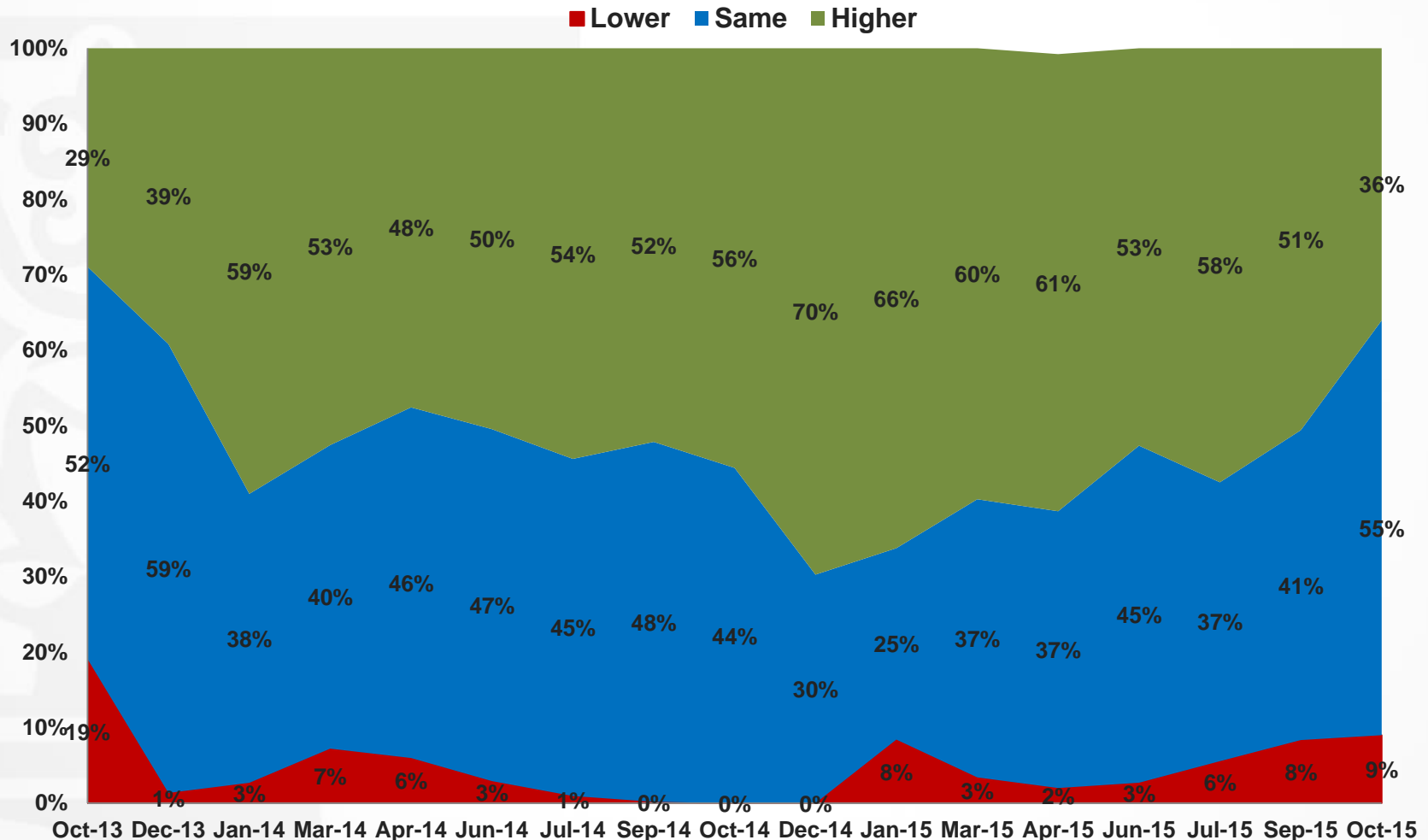
**However, the services sector, which makes up a much larger portion of the US economy (80%), appears to be healthy and expanding.**

ISM Non-Manufacturing Index  
seasonally adjusted, index, 50 or greater indicates  
expansion, less than 50 indicates contraction



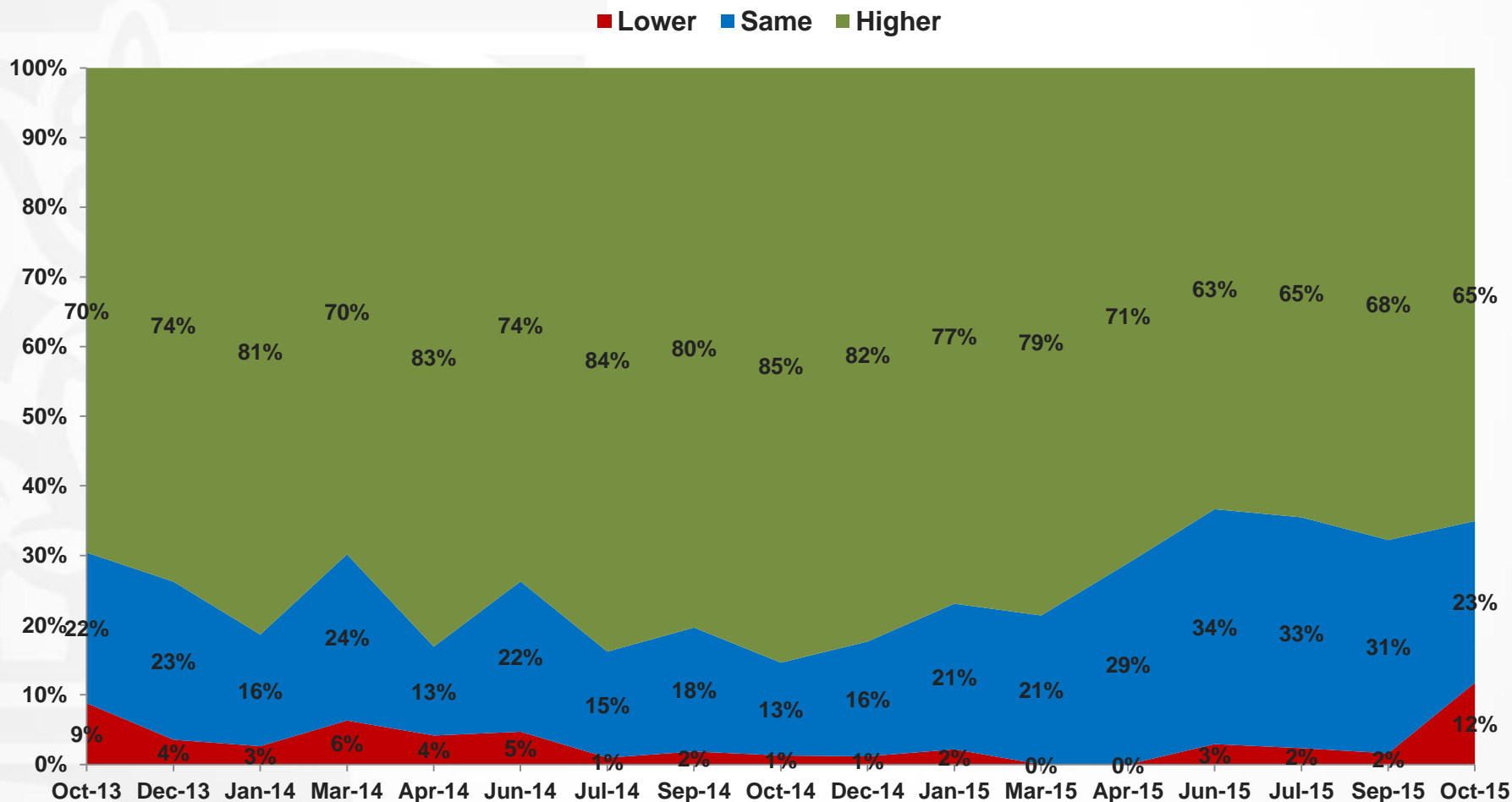
Our directors' optimism with respect to the short-term outlook for their businesses has been steadily waning over the past year, with a shift in the majority at our most recent meeting from those expecting higher growth to those expecting the same level of growth.

## What is your outlook for the rate of growth in your business over the next 3 to 6 months compared to current rates?



**While some slippage has also occurred with respect to directors' medium-term outlooks for the rate of growth in their businesses, approximately two thirds continue to expect growth to accelerate.**

**What is your medium-term outlook (over the next two to three years) for the rate of growth in your business compared to current rates?**



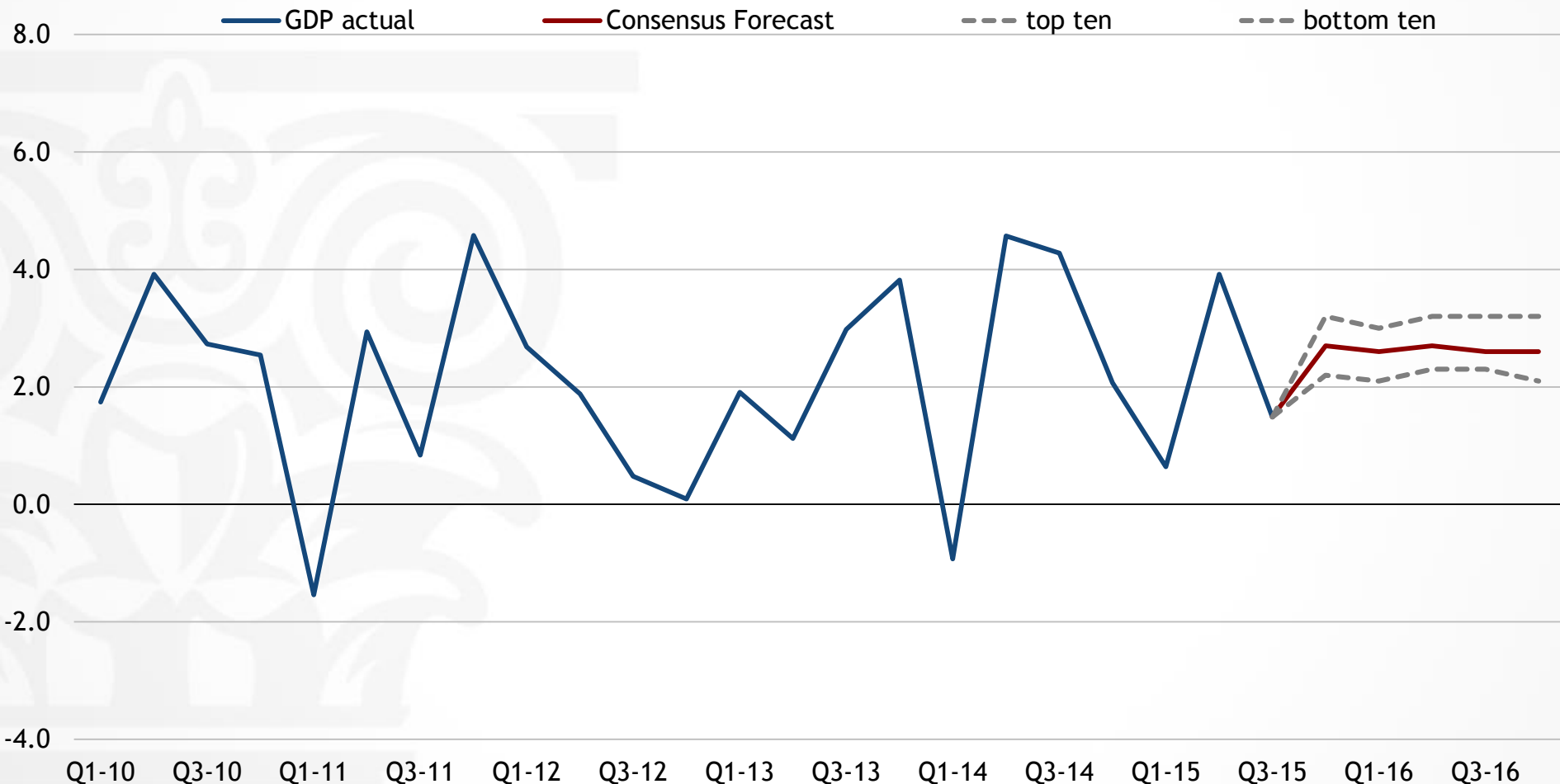
Source: FRB Atlanta



# Private economists expect GDP growth to expand at roughly 2.5% through the end of next year

## Blue Chip Real GDP Forecast

Annualized quarterly percent change



## **What we're hearing anecdotally from Tennessee business contacts:** **Increasing optimism from domestically oriented contacts; businesses whose activity is tied to foreign demand are facing sizeable headwinds**

**On balance, Tennessee businesses contacts are moderately optimistic about the growth of activity next year.**

### **Specifically:**

- **Firms that derive most of their sales domestically are generally fairly optimistic.**
- **The strong dollar and weak global demand are dampening expectations for many foreign-oriented companies.**
- **Travel and tourism activity remains a bright spot.**
- **Real estate fundamentals continue to be positive.**
- **Even with declines in some input costs, many businesses have been able to hold the line on prices, supporting margins.**
- **Hiring activity appears to be strengthening, though trend varies by industry, skill and geography**



FEDERAL  
RESERVE  
BANK  
*of* ATLANTA

# Tennessee State Funding Board

---

November 13, 2015

Lee Jones

Regional Executive - Tennessee

The views expressed are mine and not necessarily those of the Atlanta Fed or the Federal Reserve System.